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## BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION  
DOCKET CONTROLCOMMISSIONERS

KRISTIN K. MAYES, Chairman  
 GARY PIERCE  
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IN THE MATTER OF THE APPLICATION OF  
 ARIZONA-AMERICAN WATER COMPANY,  
 AN ARIZONA CORPORATION, FOR A  
 DETERMINATION OF THE CURRENT FAIR  
 VALUE OF ITS UTILITY PLANT AND  
 PROPERTY AND FOR INCREASES IN ITS  
 RATES AND CHARGES BASED THEREON FOR  
 UTILITY SERVICE BY ITS ANTHEM WATER  
 DISTRICT AND ITS SUN CITY WATER  
 DISTRICT.

DOCKET NO. W-01303A-09-0343

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 ARIZONA-AMERICAN WATER COMPANY,  
 AN ARIZONA CORPORATION, FOR A  
 DETERMINATION OF THE CURRENT FAIR  
 VALUE OF ITS UTILITY PLANT AND  
 PROPERTY AND FOR INCREASES IN ITS  
 RATES AND CHARGES BASED THEREON FOR  
 UTILITY SERVICE BY ITS ANTHEM/AGUA  
 FRIA WASTEWATER DISTRICT, ITS SUN CITY  
 WASTEWATER DISTRICT AND ITS SUN CITY  
 WEST WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-09-0343

SUMMARIES OF DIRECT AND SURREBUTTAL TESTIMONY  
 OF DAN L. NEIDLINGER

Arizona Corporation Commission  
**DOCKETED**

APR 19 2010

DOCKETED BY

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**EXECUTIVE SUMMARY – DIRECT TESTIMONY**

Dan L. Neidlinger testifies that:

The Anthem Community Council represents over 8,800 of its residents that are water and wastewater customers of Arizona-American Water Company ("AAWC" or "Company").

AAWC has requested rate increases of approximately 97% in water rates and 82% in wastewater rates which would result in an average increase in water bills of \$37 per month and in wastewater bills of \$38 per month for a total average increase of \$75 per month. The focus of my testimony addresses the rate shock related to these requested rate increases.

Approximately 36% of the increase in AAWC's rate base is due to the 2008 Pulte AIAC refund of \$20.2 million paid in March 2008 pursuant to the Fourth Amendment to Agreement for Anthem Water/Wastewater Infrastructure dated October 8, 2007. To mitigate rate shock, I propose an alternative accounting treatment of the Pulte refund. The water and wastewater plant and related accumulated depreciation associated with the 2008 Pulte refund would be removed from plant in service for purposes of ratemaking in this proceeding. The net plant would be "parked" or deferred and then transferred back to plant in service ratably over a 5-year period from 2009 through 2013. Although not at issue in this case, the \$6.7 million refund due in March 2010 would be handled in a similar fashion. Depreciation on the entire Pulte AIAC plant would be stayed until reclassified to plant in service.

Under my recommended approach, \$12.7 million of net water plant would be excluded from rate base in this case as would \$4.4 million of net wastewater plant. The staying of depreciation would increase test year water operating income by \$257,236 and wastewater operating income by \$96,142. These adjustments, coupled with lowering the rate of return from AAWC's requested rate of 8.53% to 7.33% which was used by the Commission in Docket No. W-01303A-08-0227 *et al.*, Decision No. 7140, would reduce the requested increase in water revenues from 97% to 56% and reduce the proposed increase in wastewater revenues from 82% to 63%.

The transfers of deferred plant to plant in service over the five-year period of 2009 to 2013 provides for gradual increases in rate base in contrast to the sudden and dramatic increases in rate base requested by AAWC at this time.

1  
2 Any specific comments related to rate consolidation will be made in subsequent testimony after  
3 reviewing the recommendations of the Commission's staff and those of AAWC on that subject.  
4 Notwithstanding the foregoing, rate consolidation would provide for greater equity between AAWC  
5 districts with respect to recovery of certain common expenses such as annual management fees and  
6 customer accounting expenses and would largely eliminate cost allocation imbalances.

7 **EXECUTIVE SUMMARY – SURREBUTTAL TESTIMONY**

8 Dan L. Neidlinger testifies in response to (i) the Rebuttal Testimony of Paul G. Townsley of  
9 AAWC regarding the rate base deferral proposal associated with the 2008 \$20.2 million Pulte refund  
10 payment and (ii) the Direct Testimony recommendation of Staff witness Dorothy Hains with respect to  
11 the allocation of the plant and operating costs of the Northwest Valley Regional Treatment Facility  
12 ("Northwest Plant") and that of AAWC and RUCO regarding the Northwest Plant. He also discusses  
13 the combined impact of Northwest Plant adjustment and the Pulte refund adjustment discussed in his  
14 previously filed Direct Testimony on the revenue requirement recommendations of Staff, RUCO and  
15 AAWC, as revised in AAWC's rebuttal.

16 The Rate Base Deferral Proposal. The "rate relief benefits" referred to by Mr. Townsley do not  
17 meaningfully address the "rate shock" which directly results from the \$20.2 million payment made to  
18 Pulte in March 2008. The revenue increases recommended by both the Staff and RUCO do not address  
19 or propose to resolve the "rate shock" issue. Under Mr. Neidlinger's rate base deferral proposal,  
20 AAWC can begin earning a return on its investment prior to 2015, which Mr. Townsley failed to  
21 acknowledge in his Rebuttal Testimony. Forty percent (40%) or \$8 million of the refund would be  
22 transferred to plant in service in 2010. The Company could earn a return on this portion of the refund  
23 by the year 2012, assuming it filed a new rate case sufficiently in advance of that date to allow for a  
24 Commission decision by then. Similarly 80% or \$16 million of the refund would be eligible for a  
25 return by the end of 2012, thereby enabling the Company to be earning a return on the bulk of the  
26 refund by the year 2014, depending on its next rate application timing.

27 The Northwest Plant. Regarding the Northwest Plant, neither AAWC nor RUCO addressed the  
28 plant and operating cost allocation issues in their testimony. Neither AAWC nor RUCO appear to have

1 performed an independent analysis to confirm the propriety of allocating 32% of the plant to the  
2 Anthem/Agua Fria Wastewater District. AAWC's rebuttal testimony adopted the 28% allocation  
3 percentage recommended by Staff.

4 In a prior case the Commission determined 32% of the Northwest Plant was assignable to the  
5 Anthem/Agua Fria Wastewater District, based largely on the projected growth calculations made by  
6 Dorothy Hains. Ms. Hains later lowered this allocation percentage to 28%. Ms. Hains made a material  
7 error in her historical customer growth rate calculation and compounded the error by then assuming  
8 that customer growth in the Northeast Agua Fria (NEAF) District would increase linearly at this rate in  
9 the future.

10 Ms. Hains' calculations began with an initial inaccurate premise that there were no customers in  
11 the NEAF service area at the end of 2004. Staff engineering reports reflect that 602 customers received  
12 service in the NEAF service area in January 2005. Furthermore, Ms. Hains does not account for a  
13 significant decline in growth rates due to the recession in the housing market. NEAF experienced a  
14 negative growth of 59 customers in 2008 and an increase of only 989 in 2009. Ms. Hains projected  
15 3520 customers at the end of 2009 compared with the actual count of 2914. This represents a 21%  
16 forecast error in one year.

17 Using a growth rate of 111 customers per year for the four year period of 2010 through 2013  
18 better reflects the average customer growth rate for the years 2007 through 2009, and is a more realistic  
19 projection given the current conditions in the housing market now and in the foreseeable future. Based  
20 on this analysis, only 16.5% of the Northwest Plant is assignable to the Anthem/Agua Fria Wastewater  
21 District rather than the Hains' allocation percentage of 28%.

22 The Revenue Effects of the Reduced Allocation of the Northwest Plant and the Rate Base  
23 Deferral Proposal. Combing the Northwest Plant adjustment and the 2008 Pulte refund payment  
24 adjustment reduces Staff's proposed wastewater increase from 58% to 45%. RUCO's proposed increase  
25 would be reduced from 61% to 46% and AAWC's proposed increase would be reduced from 61% to  
26 49%.

27 The rate base deferral of the Pulte refund reduces the revenue recommendations of Staff,  
28 RUCO and the Company for Anthem Water by 22% to 23%, providing some mitigation of the rate

1 shock in this case. Staff, RUCO and the Company have done little to address the rate shock problem  
2 since their rate increase proposals remain at extremely high levels, ranging from 58% for wastewater to  
3 80% for water.

4 If consolidation of rates among all of AAWC's wastewater districts is not achieved in the  
5 instant case, the de-consolidation of Anthem and Agua Fria should be revisited as part of any final  
6 Commission decision in this proceeding.

1 ORIGINAL and fifteen (15) copies of the  
2 foregoing filed this 19<sup>th</sup> day of April, 2010, with:

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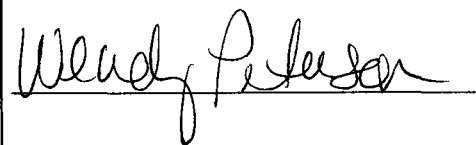
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